COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1684-03
Bill No.: Perfected HCS for HB 575
Subject: Business and Commerce; Economic Development; Tax Credits
Type: Original
Date: April 8, 2009

Bill Summary: This proposal modifies various tax credit programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	($186,254) to more than ($50,186,254)	($208,683) to more than ($50,208,683)	($214,943) to more than ($62,714,943)
Total Estimated Net Effect on General Revenue Fund*	**($186,254) to more than ($50,186,254)**	**($208,683) to more than ($50,208,683)**	**($214,943) to more than ($62,714,943)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**3**	**3**	**3**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Local Government	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state the proposal has the following fiscal impact to the state:

- 100.710, 100.720, 100.760 - These sections relax certain requirements during adverse economic or market conditions for the BUILD tax credit program. The requirement that another state is competing for a similar BUILD project is also eliminated.

- 620.1039 - This section reauthorizes the tax credit for qualified research expenses. The total amount of available credits under this program is $10.0M. This could therefore lower general and total state revenues by that amount.

- 620.1878 & 620.1881 - This section defines "Premium employment project" and increases the total amount of available credits from $60.0M to $100.0M. This could therefore lower general and total state revenues up to $40.0M.

This proposal may stimulate other economic activity, but BAP does not have data to estimate the induced revenues. DED may have such an estimate.

Officials from the **Department of Economic Development (DED)** state the bill re-establishes the Qualified Research Tax Credit program and makes it an entitlement program. The tax credit is capped at $10 million. The bill also increases the cap for the Missouri Quality Jobs Program from $60 million to $100 million. The department would require two (2) additional FTE as a result of the proposed legislation.

Business and Community Services (BCS) assumes the need for one additional FTE and related costs to administer the Qualified Research Tax Credit. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, a side chair, file cabinet, calculator and telephone and recurring costs for office supplies, computer, professional development and travel. The cap for this new tax credit is $10 million so there would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

ASSUMPTION (continued)

The proposed legislation also increases the cap on Missouri Quality Jobs from $60 million to $100 million. The increase in the cap for the Missouri Quality Jobs Program would result in the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program. The related costs for this FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computer, professional development and travel. In addition, the increase in the cap of $40 million for the Missouri Quality Jobs Program would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Officials from the **Department of Revenue** assume the proposal will not impact their agency.

Oversight assumes the changes in the proposal could increase the utilization of several tax credit programs administered by the Department of Economic Development, and therefore increase the amount of tax credits issued.

Over the previous three fiscal years, the amount of tax credits issued under the BUILD program has averaged $6.9 million. Therefore, an average of $8.1 million of BUILD tax credits remains beneath the $15 million annual cap. Oversight assumes the annual limit for the program has not changed from $15 million annually. Since Oversight has already reflected the potential cost of this program of up to $15 million in previous fiscal notes, Oversight will not reflect additional lost revenue from the changes in this bill regarding the BUILD program.

The amount of issuance and redemptions for BUILD for the previous three years has been;

Fiscal Year	Issuances	Redemptions
FY 2008	$7,489,456	$4,975,510
FY 2007	$7,032,080	$6,859,745
FY 2006	$6,247,701	$5,402,416

The Department of Economic Development has not been able allowed to issue Qualified Research Expense tax credits for all tax years beginning on or after January 1, 2005. Therefore, no tax credits have been issued under this program for the past three fiscal years. This proposal opens the program back up with a $10 million per calendar year limit. Oversight will reflect a potential loss of income due to the tax credit issuances of $0 to $10 million each year.

ASSUMPTION (continued)

This proposal also creates another tax incentive under the Quality Jobs Program. Newly defined Premium employment projects are allowed to retain a percentage of the withholding tax that would normally flow to the Department of Revenue. This new incentive shall not be included in determining the maximum calendar year annual tax credits issued for the entire program. Therefore, Oversight will assume an unknown amount of withholding tax may be retained by new businesses that qualify under this new program. Oversight will reflect this potential loss from $0 to an unknown amount.

Also, the annual limit for tax credits issued under the Quality Jobs program has been raised from $60 million to $100 million. The amount of tax credits authorized for the past two fiscal years has been $4.5 million in FY 2007 and $23.1 million in FY 2008. Oversight will reflect a potential loss to General Revenue of up to $40 million annually from this change.

Oversight assumes there could be some positive economic impact to the state as a result of these changes; however, Oversight assumes these would be indirect fiscal impacts and have not reflected them in the fiscal note.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 81 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, if $10 million credits are issued, Oversight would assume $8,300,000 credits would be redeemed.

House Amendment 1:

This amendment increases the New Markets tax credit annual limit from $15 million ro $27.5 million.

In response to a similar proposal from this year (HB 313), officials from the **Department of Economic Development** stated this section increases the cap on the New Markets Tax Credit from $15 million to $27.5 million and extends the program for 2 years through 2012. The increase in the cap for the New Markets Tax Credit would result in the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III and would be responsible for reviewing the tax credit applications to make sure they meet the criteria of the program, drafting and sending the tax credit awards and ensuring compliance with the program.

ASSUMPTION (continued)

The increase in the cap would be a negative impact to total state revenue. However, there would be an offset of unknown positive economic benefits as a result of this increase so the exact amount of the impact cannot be determined.

Oversight will range the fiscal impact of this proposal from $0 (no additional tax credits are issued above the current $12.5 million per year cap) to a negative $12.5 million (change in cap). The changes in this proposal would be effective in August 2009. Therefore, Oversight assumes the Department of Economic Development would be allowed to authorize additional qualified equity investments starting in FY 2010; however, under this program, taxpayers are not allowed tax credits for their investments in the first two years (seven percent in year three). Therefore, Oversight assumes additional credits may be issued and utilized in the third year after the effective date of this proposal, or FY 2012. Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore have not reflected them in the fiscal note.

Oversight assumes the extension of the time period for taxpayers to make qualified equity investments from FY 2010 to FY 2012 would not have a fiscal impact on the state within the time frame of this fiscal note. Taxpayers are given tax credits for qualified equity investments in the following amounts; zero percent for the first two years, seven percent for the third year, and eight percent for the next four years. Therefore, taxpayers making a qualified equity investment in FY 2011 (first extension year) would not receive a tax credit until FY 2013, which is beyond the scope of this note.

House Amendment 2:

Oversight assumes House amendment 2 will not create a fiscal impact to the state.

House Amendment 3:

Oversight assumes House amendment 3 will not create a fiscal impact to the state.

House Amendment 4:

House Amendment 4 makes changes to the Downtown Revitalization Preservation Program by including incremental withholding tax to the sales tax increment that can be used for the program. Currently incremental state sales tax income can be used for this program. Oversight assumes this amendment will increase the utilization of the program and will result in a reduction

ASSUMPTION (continued)

in total state collections; however, Oversight has already accounted for the potential $15 million loss in revenue from this program in the original fiscal note. Therefore, Oversight will assume House Amendment 4 will not create an additional fiscal impact upon the state.

House Amendment 5:

Oversight assumes House amendment 5 will not create a fiscal impact to the state.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2010	FY 2011	FY 2012
GENERAL REVENUE			
Costs - DED			
Personal Service (3 FTE)	($104,280)	($132,758)	($136,740)
Fringe Benefits	($50,711)	($64,560)	($66,497)
Expense and Equipment	($31,263)	($11,365)	($11,706)
Total Costs - DED	($186,254)	($208,683)	($214,943)
FTE Change - DED	3 FTE	3 FTE	3 FTE
Loss - DED			
Reauthorization of the Qualified Research Expense tax credit program (Section 620.1039)	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
Loss - DOR			
New program under the Quality Jobs Act that allows premium employment projects to retain a percentage of withholding tax	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Loss - DED			
Increase in the cap for the Quality Jobs program from $60 million to $100 million	$0 to ($40,000,000)	$0 to ($40,000,000)	$0 to ($40,000,000)

FISCAL IMPACT - State Government (continued)	FY 2010	FY 2011	FY 2012
Loss - tax credits from New Markets Tax Credit program - increased annual cap from $15 million to $27.5 million - Section 135.680 (HA 1)	$0	$0	$0 to ($12,500,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($186,254) to more than ($50,186,254)**	**($208,683) to more than ($50,208,683)**	**($214,943) to more than ($62,714,943)**
Estimated Net FTE Change for General Revenue Fund	3 FTE	3 FTE	3 FTE

Note: This does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2010	FY 2011	FY 2012
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses that qualify for the various programs within the bill could be positively impacted as a result of this proposal.

FISCAL DESCRIPTION

This proposal re-authorizes the tax credits for qualified research expenses. The program had an aggregate cap of $9.7 million dollars and for all years beginning on or after January 1, 2005, no tax credits could be approved, awarded or issued (SB 1155 - 2004). This proposal reauthorizes the program and changes the cap to $10 million.

The proposal also increases the annual cap on the Quality Jobs program from $60 million to $100 million.

The proposal also creates a new program within Quality Jobs under which 'premium employment projects' are allowed to retain a percentage of their employees withheld state income tax. This does not count toward the annual limit for the Quality Jobs program.

Section 135.680 (House Amendment 1) - Under current law, the Department of Economic Development is required to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than fifteen million dollars annually. Following fiscal year 2010, no equity investments may be made unless reauthorization is provided by enactment of a general law by the General Assembly. This act would require the department to limit the monetary amount of qualified equity investments to a level necessary to limit tax credit utilization to no more than twenty-seven million five hundred thousand dollars annually.

This proposal contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Administration - Budget and Planning
Department of Revenue

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